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WHY AND HOW SUPRANATIONAL INSTITUTIONS BECAME CENTRAL STAKEHOLDERS IN THE EUROZONE DEBT CRISIS 2008–2012?

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ABSTRACT

The financial crisis in the Eurozone is combining several new interdisciplinary debates. Has the financial crisis been caused by the decisions of the political actors or rather by complicated economic dilemmas? In what way have different social stakeholders acted during the years of the crisis and which of the groups have had the biggest influence in different stages of the crisis? Why and how national political elites have lost their dominant position in the crisis management, which have been the cornerstones of this power transition process and what role have the supranational institutions such as the European Commission and the European Central Bank played during the crisis? Accordingly, the main goal of the article is to define the crucial events and stakeholders in the Eurozone crisis solution process by using empirical process tracing and narrative analysis as the research methods. It will also inquire into how and why national political elites and citizens delegated their democratic competences and powers to non-electable institutions during the Eurozone crisis.

INTRODUCTION

The European Union's political, economic and academic elites during the last four years have been looking for a solution which would provide stabilization, security, and sustainability to the Euro and the Eurozone. This process has been complicated, slow and controversial as in times of economic crises; popular political goals sometimes tend not to be supported by the economic logic and interests of the majority of social groups. The solutions, at least the temporary ones, have been found even in cases when they were beyond the European Union's legislative framework (the European Financial Stability Fund, EFSF) or by asking additional delegation of power to the European Union institutions from the member states (the European Stability Mechanism, ESM).

The question whether a theoretically reasonable economic solution for the Eurozone social stakeholders can also be politically popular and supported by economic elite is one of the most central ones to answer in this study. For the Eurozone, a long-term successful solution

providing sustainable growth will also need simultaneous political, economic, and public support. In the practical decision-making process, choices and options are certainly restricted by the economic realities and interests of different social stakeholder groups (voters, political elite, economic elite, administrative elite, and international monetary institutions). Finding a balance has been ever more challenging in terms of the growing global competition and particularly when considering the Eurozone problems along with labour market flexibility and ageing (Inotai 2011: 7–9).

The situation is even more complicated as the main symbols of European integration (e.g., a single currency, harmonized interest rates for governmental bonds, structural funds and subsidies) may have been the variables causing the crisis in Greece, Portugal, Cyprus, and Ireland. Joint initiatives and common policies may, next to their positive effects, also have had some negative impact on the Eurozone's employment (which is lower than the average employment of non-Eurozone member states of the EU), price flexibility, productivity in some member states, and overall competitiveness of the Eurozone. This leads us to the second research question which asks whether monetary integration can, or should be, simultaneously reasonable in economic terms and popular in political terms for all member states and their social stakeholders.

In theoretical aspects, the article focuses on the process of delegation and transition of democratic competences and powers to non-electable institutions by social stakeholders in a crisis situation. The first task of this paper is to map, evaluate, and analyse the main options for the solution of the Eurozone debt crisis. The next task is to identify the interests of social stakeholders related to debt crises and having political importance. The third part of the paper focuses on practical policy choices and their influence on the stakeholders during the Eurozone crisis in 2008–2012. The analytical part will focus first on the motivation of social stakeholders during the crisis, by also asking which choices were made on their own initiative and which ones were forced by the events of the crisis. The analytical part will also focus on the logic and patterns of interaction between market fluctuations and the Eurozone stakeholders' reactive actions. The main argument of the research is that in the (Eurozone) crisis situation non-electable institutions tend to be more effective and tend to concentrate more power, because they do not need to be concerned with voters' reactions.

The article is methodologically based on the process tracing and narrative analysis model; it will observe the Eurozone policy decisions and analyse these actions based on the motivation of social stakeholders. The research is empirically based on the official data on economic indicators and crises management programs of the European Central Bank (ECB) and the Organization of Economic Cooperation and Development (OECD).

1. DISCUSSIONS AND DILEMMAS ON POLITICAL AND ECONOMIC CHOICES IN THE EUROZONE FINANCIAL CRISIS

Dilemmas and discussions in terms of political and economic choices and differentiating rationality for the Eurozone's stakeholders have been debated actively over the last years among politicians, social scientists and academics (Papadimitrou and Wray 2011; Kregel 2011; Christova 2011).

In the framework of the EU institutional system, the rational participation of stakeholders is even more complex because of the multiple supranational institutional actors which complicate policy choices and actions (Van Schendelen 2002). From a broader perspective, different success criteria and values concerning the Eurozone have been discussed by Daniel Mugge (2011) who distinguishes the pragmatic and the dogmatic models of policymaking, claiming that there is a shift from pragmatism to dogmatism in the recent years, and the changed rules may be partly traced to the financial sector lobbying in the 1990s when large European banks identified cross-border capital markets as the key source of future profitability.

The financial crisis has also raised the wider strategic question of the economic effects of the currency union without a fiscal union and opened a debate about the possible breakup of the Euro area because of the dissatisfaction of some member states with the outcomes of the single currency area (Eichengreen 2009: 4).

Vivien A. Schmidt (2010) drives this question even further by asking whether the EU has the economic governance capacity needed to come up to the challenges posed by the markets, whether the economic measures taken are the right ones to promote growth while calming markets and whether they are sustainable politically. Schmidt stresses that this is not only a question of European member-state leaders' political ambition to deepen economic integration at a time when inward-looking politics is on the rise, but also whether their citizens are willing to put up with tough budget cuts at the time of rising unemployment, poverty, and inequality (Schmidt 2010).

In the Eurozone's case, the central dilemmas appear between economic rationality and political rationality and between the timeframes of stakeholders, as some of them operate in short-term frameworks and some stakeholders in a long-term scope (Lane 2010).

For social groups and stakeholders, there is no confrontation between the political and the economic logic as well as the respective interests in long-term goals. A. Przeworski has shown that a good and responsible governance, together with economic growth, supports effective democracy in the long term (Przeworski 1991). Problems appear during a recession when it is hard to find simultaneously a winning scenario in terms of political popularity, social stability, and economic sustainability. This dilemma can lead to a situation in which the actual policy implementation may play a secondary role since economic and political circumstances offer no quick fix and public popularity for political stakeholders (Schmidt 2010; Mugge 2011).

The dilemma between political and economic priorities can also appear in cases of politically important and socially symbolic but economically complicated or ineffective processes. For example, the single currency Euro has, from the political point of view, been the symbol of a successful European integration which should hence be protected at all costs. However, from the economic point of view, there is a possibility that the Euro as a single currency will not meet the economic needs of all the Eurozone member states or is, thus, in itself a cause of the debt crisis and dropping economic productivity (debated in Eichengreen 2009; Bernanke 2005; Alexiou and Nellis 2012; Notermans 2012).

This effect is illustrated in Figure 1 which visualizes how the single currency has widened the industrial production gap among the member states (Germany and Italy) as disabling the balancing tools (revaluation or devaluation) used in the period of national currencies.

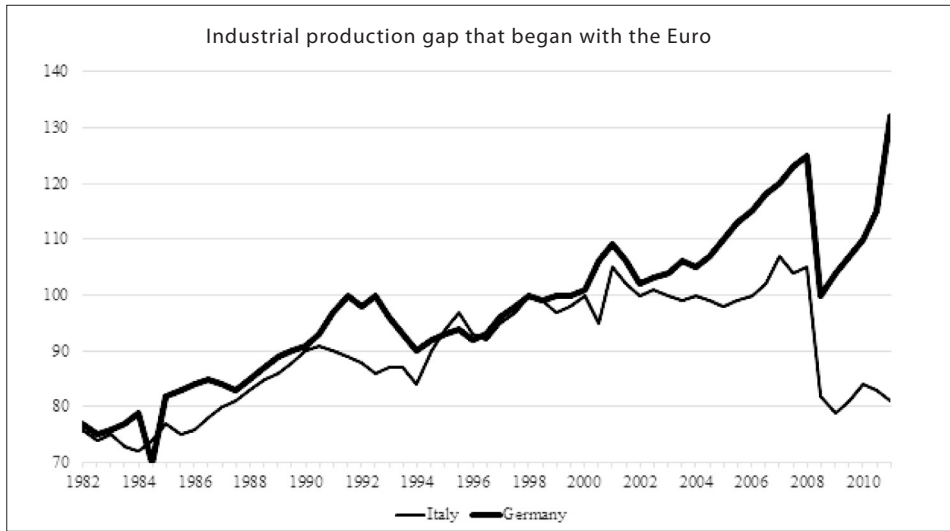


FIGURE 1. Industrial production index in Germany and Italy, 1982–2012 (year 2000 index = 100), OECD database 2012

As seen in Figure 1, in the pre-euro period from year 1982 to year 1999, the industrial gap between Italy and Germany was effectively balanced by the pressure and possibility of devaluation (Italy) or revaluation (Germany). Since the introduction of the Euro in 1999 (marked as the 100% level for both countries in Figure 1), the industrial gap started growing again, at first slowly, but increasingly faster after 2002. As a result, in 2010 Germany has reached the industrial production level of 130% as compared with the level of 1999, while the Italian Industrial production has dropped to 80% of the 1999 level.

The viability of effective currency unions without a fiscal union has been one of the most debated dilemmas in the context of the Eurozone financial crisis in the recent years. Of course, the matter was debated already during the foundation of the common currency, because a single currency itself can hardly serve all the different interests of the member states and stakeholders, such as the growing and recessionary economies or centrally located large exporters and remotely located consumer economies (Friedman and Mundell 2001).

From the political perspective, it is not only economic sustainability and stability that can produce political popularity and the public support of voters. A limited or temporary governmental overspending combined with a high living standard can also be a source of political popularity, especially when the existence of a currency union may allow enjoying the debt-financed welfare longer than it would be possible in the undistorted market conditions (debated in Eltető 2011: 37–38). For example, when the Italian industrial production index (see Figure 1) in 2012 was by 43% lower than the German production index, then the GDP per capita was only by 26% lower than the German GDP per capita. (In this comparison, as a counterbalance, we need also to admit that Germany exceeds all the other EU member states in the comparative importance of industry for the whole economy, while Italy is

perhaps characterised by the opposite trends). The advantage is more visible for countries with a low productivity, because these countries do not experience the negative effects of reducing productivity, such as a higher inflation and higher interest rates, at least for the time being.

Limited overspending inside a currency union can also be supported by lenders for restricted periods, if the risks are reduced by the existence of a single currency and the expectations on profit are higher than the rates offered by countries with a balanced budget and a low debt. The growing foreign debt is not a problem *per se* for creditors as the exchange rate and interest rates should not be threatened or influenced by the national debt. At least, this had been the vision before the Greek crisis in 2009 (debated in Notermans 2012, 9–10). By keeping their consumption level high, these countries also supported exporting countries as they are buying their products and securing them with new reserves and investments. The financial surplus of capital exporters (countries having a current account surplus) is balanced by capital demand from consumer countries having a current account deficit (Kregel 2011). As a result, consumer economies can keep consuming as long as foreign investors want to lend their capital to consumer economies at the offered interest rates.

Market feedback in this situation would be restricted by the single currency (see Figure 3), and market reactions are not only reflecting the actual performance of a member state, but also the stabilizing effect of the Eurozone (including possible supportive bond purchases and bail-outs, if needed). The economic argument here might be that, if influencing the interest rates is responsible, it would offer much lower summarized interest costs for the whole Eurozone. Or else why to consider the option with market-based higher interest rates at all, when a central bank like the ECB can produce as low interest rates and as much additional resources as needed (Draghi 2012)?

In this situation, the logical question arises: which stakeholder group should be motivated for a change of lowered interest rates or which change can be advised? The second important question in this dilemma is which stakeholder groups should pay the cost of interest rate synchronization and how much tax payers in the Eurozone are ready to spend on it (Kregel 2011).

Short-term politically desirable (popular) goals (like subsidies) can also lead to immediate negative economic effects. A correlation between the Eurozone crisis reduction tools and unemployment levels in target countries is here a suitable practical example (Figure 2). As visualized by Figure 2, the Eurozone member states, which spend hundreds of billions of Euros on the financial and social stabilization, have suffered higher unemployment rates as compared with non-Euro states which adapted more quickly to the crisis. As a result, the Euro area labour market is becoming less flexible and is losing its productivity versus the other members of the European Union and also global competitors (debated in Inotai 2011: 7–9).

Accordingly, in some aspects of the Euro-currency, what should have been the symbol of stability and growth has turned to cause rigidity and stagnation for many a user (Kregel 1999).

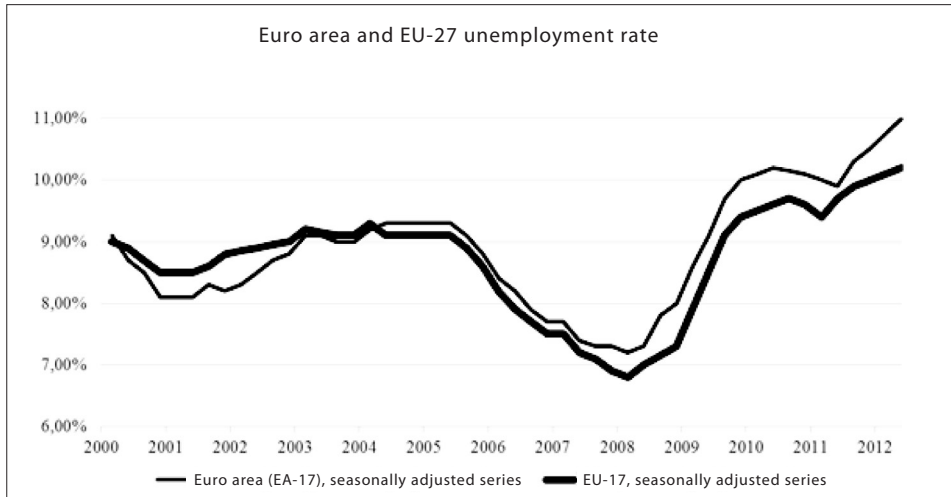


FIGURE 2. Unemployment in the Euro area and in the EU-27, OECD database 2012

2. STAKEHOLDERS' INTERESTS AND POWERS IN THE EUROZONE CRISIS

The previously debated Eurozone's economic circumstances and dilemmas have a different value and importance from the perspectives of different groups of stakeholders. Accordingly, social stakeholders and their specific interests play a central role when analyzing the Eurozone's economic dilemmas and choices during policy formulation and implementation. The main dependent variable in analyzing the stakeholders' role in the Eurozone policy-making process is 'gaining power', which can be defined as "having a growing jurisdiction to independent (sovereign) decision-making or resource allocation, and having a growing dominant role in cooperative decision-making with other stakeholders".

The stakeholder theory was first addressed in organizational management and business ethics by R. Edward Freeman in "Strategic Management: A Stakeholder Approach" in which he identified and modeled the interest groups of a company as well as described and proposed methods of meeting the interests of these groups. The categories of the classification of social stakeholders are based on power, influence, need, value, and legitimacy (Mitchell and Wood 1997, Cameron, Seher and Crawley, 2010). Stakeholders' evaluation can additionally consist of their attitude (passive or active, positive or negative), their ability to identify themselves (form a group), and their ability of communication and cooperation (Turner and Kristoffer 2002). R. Phillips (2003) distinguishes between the organization's normatively legitimate stakeholders, to whom the organization holds a moral obligation, and derivately legitimate stakeholders whose status derives from their ability to affect the organization or its normatively legitimate stakeholders.

In the business terminology, in addition to shareholders, the stakeholders include governmental bodies, political groups, trade associations, trade unions, communities, financiers, suppliers, employees, and customers (Freeman 1984).

The stakeholders influencing and influenced by the management of the Eurozone crisis discussed in this paper include individuals, economic actors, political elites, supranational EU institutions (the ECB and the European Commission), and international monetary institutions. Some of these groups consist also of influential sub-groups representing interests different from those of the majority of the group. Stakeholders' actions will be analyzed in the categories of their power, influence, value, activity, influence, attitude, and legitimacy.

Individuals as a stakeholder group include the Eurozone taxpayers and groups dependent on the state financing and benefits, citizens and non-citizens; as a result, the interests inside this group are not coherent. Individuals as a stakeholder group are mainly interested in high certainty and security regarding the economic outlook (consumer confidence), high employment levels, high salaries, low taxes, high-level benefits from the state, but they tend to be passive as their expectations are met (Dahl 1991).

Individuals can be partly seen as economic actors, as they are holders of government bonds, stocks, and shares of pension funds. A higher consumer confidence encourages spending and lending (or saving, depending on interest rates), which then supports the GDP growth and the increase of tax payments to governments. Individuals tend to be rationally egoistic, wishing a lower taxation in years of economic growth and expecting government support in years of crisis (Lijphart 1999). At the same time, most individuals make their economic policy choices without a deep knowledge of national budget and economic policy options (Birch 1993).

Citizens are the source of legitimacy for the political elite, and their main power is voting in elections. As citizens control the political system through ballot boxes, their interests need to be met on a short-term basis, otherwise the ruling politicians will be replaced by another set of political elite (Lipset 1959). Innovations and restructuring, productivity and export capability very seldom find a high place on the long-term wish-list of national political choices (Inglehart 1997).

Inside this stakeholders' group, sub-groups have different preferences in the crisis resolution process, mainly depending on whether they are net-payers or net-receivers in relation with taxation and state budget. While taxpayers tend to reject additional taxation and prefer to support austerity as a sustainable solution, subsidized groups, on the contrary, tend to support additional taxation or additional money supply to safeguard their own incomes. Some countries and their citizens can also have a different position to austerity if they are the so-called net-payers and net-savers. The stakeholders' influence becomes more complicated in case when net payers are an influential group among capital controllers (like Germany, Nordic countries, and Benelux are in the EU).

Which solution will be chosen by the political elite depends not only on the balance among those groups, but also on how actively they express their interests (Lipset 1959). Governmental bonds offer in this case a comfortable short-term exit-strategy by allowing keeping taxes on the previous level, but also keep offering subsidies and political popularity.

The economic actors as a stakeholder group include a wide range of small and medium-sized businesses, national and international level business actors, representatives of industry and services, also involving the networks of business actors, lobby groups, umbrella organizations and trade unions. The main difference in their interests and actions follows

from whether they are tax-payers, receivers of the state or the EU funding, or investors, and whether they are acting locally or internationally. As to international businesses, the majority of them benefit from economic stability and growth both for operating and investing, a smaller number of them expect the subsidies to be available, the first being more active in lobbying for the market conditions and the latter for the conditions of aid. A small number of the sub-groups of business sector stakeholders benefit from the market fluctuations and crisis and are actors on the financial and stock markets.

Long-term economic actors are interested in a stable and growing economic environment, steady inflation, a stable GDP growth, relatively low interest rates, relatively low taxation levels, an efficient regulative framework, growth regarding the economic outlook (indicated as business confidence), access to cheap funding (interest levels across the Eurozone), low taxation levels also for the companies exporting beyond the Eurozone (Kregel 1999). The majority of business groups are interested in a fast relief during the crisis, additional financial programs, keeping the employment and consumption levels and ensuring financial sector security. They take less interest in the restructuring of economies, bankruptcies, high unemployment and shrinking government budgets. Low-level losses for all social groups through inflation and additional taxation are preferred to sharp losses for those who took the risks. The growing debts are not seen as problematic as long as there is a capability to service them.

As the business actors are also major financers or influencers of political parties, these preferences are communicated to political elite (Lipset 1959). Some business groups prefer a consolidation of finances through budgetary austerity measures, claiming that it cuts deficits fast and should thus produce stability and growth. At the same time, pro-growth experts favour a continued accommodating monetary policy and lower interest rates, or even quantitative easing, modest inflation, and moderate cuts over a long term to promote growth (Darling 2010).

The speculative participants inside the group of economic actors are interested in fluctuating prices and markets, which mainly come from uncertainty. They have a long-term view and are interested in the sustainability of the underlying asset for a long term (Papadimitrou and Wray 2011). Speculators have generally a short-term view, and they are interested in fluctuations in price changes (Papadimitrou and Wray 2011).

The differences in terms of the crisis solution scenarios inside a group of economic actors are depending on the following variables: a) support to budget growth or to austerity; b) support to inflation or price-stability; c) support to centralized redistribution or to market economy, d) support to economic stability or instability, e) support to creditors' interests or to debtors' interests.

National political and administrative elite is one of the central, most active, most powerful and communicational stakeholder groups in process influencing and decision-making regarding the Eurozone governance and policies (Held 2006).

Currently, most of the influential decisions regarding the Eurozone crisis management are negotiated and agreed by the leaders of the Eurozone countries (during the European Council meetings and separate high-level meetings), ministers of finance, and presidents of national central banks.

Most of top politicians (prime-ministers and ministers of finance) managing the crisis are not directly elected by the citizens but appointed by national parliaments (which is common in modern democracy). The most influential directly elected politicians in terms of European affairs are the directly elected heads of states (French president) and members of the European affairs committees of national parliaments, giving the mandate and setting the decision limits for national ministers. Before the year 2008 and at the start of the crisis, the norm was that parliamentary decisions on extraordinary actions need to be taken and voted at plenary sessions. This has gradually been replaced by mandates given by the committees of the EU affairs (De Grauwe 2010). In everyday decision-making, though, the importance of the minister's cooperation and information with expert civil servants in the field is often higher than the cooperation with the parliament.

Among with political and administrative elite actors, also the approach "member states of the Eurozone" (Germany, Estonia, Finland etc.) are used often as a group or type of stakeholders. The opposition between the debtor (net-payers) and creditor countries is also often used in this context. However, theoretically it would be more correct to define national governments, ruling coalitions or national political elite in this aspect as stakeholders.

Supranational political and administrative institutions within the Eurozone, in the Eurozone context are mainly the European Commission and the European Central Bank (ECB).

These institutions are either independently elected by their own members (or shareholders) or nominated by national parliaments, governments or presidents. Differently from national politicians, administrative elites (national central banks and the ECB), these institutions do not need to concern about their popularity as their members are not directly elected. Supranational or administrative actors tend to follow the neo-institutional motivation model in which the rules and norms tend to dominate over the idealist goals and broader gains (Hall and Taylor 1996: 938). The central corner-stones of the neo-institutional model are the dominance of legal rules, standardized procedures and administrative habits, support of comfortable, secure compromise solutions, and rational choice and compliance (Eilstrup-Sangiovanni 2006; Hall and Taylor 1996).

International intergovernmental (financial) institutions (mainly the IMF in the Eurozone context), which are directly participating in managing the Eurozone crisis (by giving out loans to problematic countries) are interested (in the short term) in stable financial markets that don't experience huge distortions or extreme volatility, but are gaining profit from loans. In the long term, international institutions are interested in a stable global growth.

3. TRACING THE POLITICAL PROCESS: EFFECTS OF STAKEHOLDERS' ACTIONS IN THE EUROZONE CRISIS MANAGEMENT

In the beginning of 2013, the majority of the leaders of the Eurozone countries and the president of the European Council have expressed their belief that the worst part of the financial crisis is over, and the political decisions taken to solve the crisis have been successful (Van Rompuy 2013, 1). This is in sharp contrast with the statements made by the same leaders only six months ago when the interest rates on sovereign debts were at their 10-year highest

(especially for Southern Europe), the Euro was at its five-year lowest exchange rate against the dollar, and unemployment in many Euro-area countries was rising fast, reaching its highest rate of alltimes. Which have been the main actions of markets' and stakeholders' activities to influence the crisis?

During the first period of the global financial crisis, in 2008–2009, it was considered possible that member states and local actors could handle the debt problems themselves by adjusting their budgets and cutting deficits while financial markets would offer enough refinancing for the states with an acceptable level of interest rates. No special European level interference measures were seen necessary or used. At this stage, national political elites were the most influential stakeholders in the process.

The situation changed in 2010 when it became evident that some member states with debt problems were unable to continue lending from the markets and refinance their obligations. This led to the situation in which the market's and investors' trust towards the Eurozone member states' financial stability started to differentiate. Starting from year 2009, the levels of interest rates on sovereign debt (government bonds) across the Eurozone member states, which had been consolidated and synchronized after the Euro introduction, started to differentiate rapidly again. This created an additional interest payment pressure on already highly indebted countries.

Figure 3 illustrates the interest rates of government bonds, showing the pre-Euro market situation, the consolidated period between the years 2001–2008, and the crisis development where the major difference occurred in 2011 when the difference between bonds of Germany and Greece experienced a gap of 800% (the first having near a 2% and the latter a 16% rate).

From the stakeholders' perspective, it meant that, next to political elites, voters on the one hand and supranational institutions on the other started to be engaged more actively

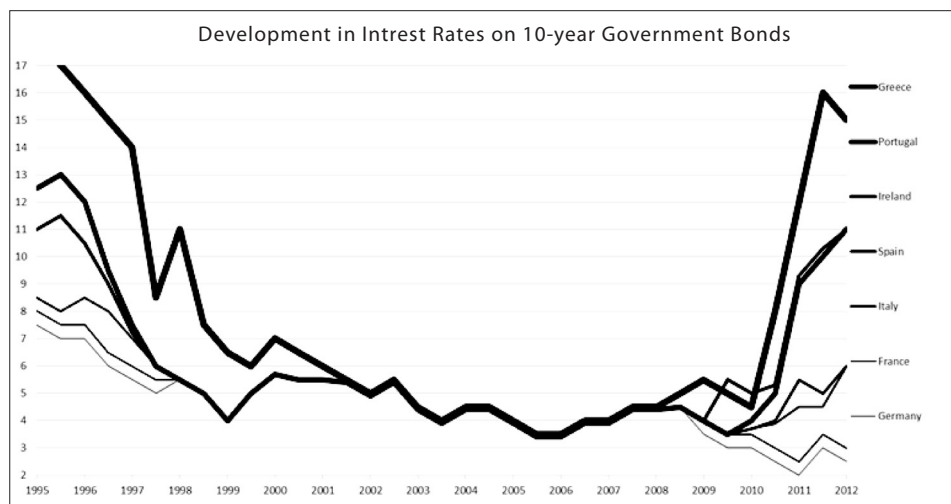


FIGURE 3. Interest rates of selected Eurozone member states' national bonds in 1995–2011, OECD database 2012

in the discussion and solution seeking. The first major action in fighting the Eurozone crisis was to bail out three member states of the Eurozone (first Ireland, then Greece and Portugal) which could not finance themselves due to excessively high interest rates requested by the financial markets.

The problem for the Eurozone and for the EU was both legal and economic. Firstly, in legal terms, the Lisbon Treaty in articles 123, 124 and 125 clearly states that member states have their own responsibility in terms of budgetary obligations and other member states, and the EU institutions are not allowed to bail them out. Secondly, in economic terms, the amount of resources necessary for a bail-out were far bigger than the annual EU budget. Hence, the member states faced remarkable additional costs. As the costs without bail-outs seemed even bigger, it was seen rational to ignore the treaty articles and to collect a bail-out fund instead of relying on the market process (Purju 2012: 16).

The nature of the crisis and the measures taken were expected to be temporary, although a need for a European level interference was admitted. The volume of the summarized stabilization capabilities grew fast to 750 billion Euros for the end of 2012, which is quite remarkable as compared with the annual EU budget in the size of 129 billion Euros.

At the institutional level, it led to the creation of the European Financial Stability Mechanism (EFSM) in May 2010, the Greece Loan Facility (GLF), the European Financial Stability Facility (EFSF) in May 2010, and the European Stability Mechanism (ESM) in September 2012 (Purju 2012: 18–19). Some of these institutions were created in accordance with the existing treaty bases (EFSM), others were created beyond the EU legal framework (EFSF), and some institutions needed an additional legal mandate to be created by the member states (ESM).

Firstly, the European Financial Stability Mechanism (EFSM) was created by the EU and the IMF with resources up to 60 billion Euros. The EFSM used its financial tools mainly to provide loans to Ireland and Portugal. As a parallel process and as the second pillar, the Greece Loan Facility (GLF) was created by the same stakeholders (the EU, the IMF, and the EU member states) with the fund of 110 billion Euros to support the refinancing Greece's debt (Purju 2012: 18). This institutionalization process was dominated by the EU member states and by the IMF.

As the third pillar of the stabilization measures, the European Financial Facility (EFSF) was created after intense debates in May 2010 (Christova 2011, 52). Here, the technical solution was different; the EFSF was created as a private fund and completely beyond the treaty framework. What made it special was its scope its liabilities went up to 780 billion Euros, guaranteed by the member states. The EFSF was also expected to take over the liabilities of the EFSM and the GLF (Purju 2012: 18-19).

A vital part of the plan of creating the stabilization mechanisms and institutions was to convince the markets that bail-outs were conducted in a centralized way and would continue, if needed. All three mechanisms were created beyond the usual treaty framework and its procedures by a special mandate of the member states and their political elites. Both the Eurozone voters and its supranational institutions played a secondary role when the EFSM, the GLF, and the EFSF were designed and launched.

The institutional build-up and the voting mechanism of the EFSF followed not the logic of the European Union institutions in which small states are over-represented as compared with

bigger member states, but the logic of the IMF in which representation is directly reflecting the financial participation. Accordingly, six bigger member states of the Eurozone, which are also the biggest shareholders in the EFSF, are able to control the financial decisions of the EFSF, while small states and the EU supranational institutions have a very low impact on decision-making.

In October 2010, the European Stability Mechanism (ESM) was launched, ESM treaty was signed on 2 February 2012 and became effective on 27 September 2012, both intended to replace (take over) the obligations of the EFSF. The ESM with the capital of 700 billion Euros will offer in total 500 billion euros lending capabilities and is planned to take over the liabilities of the EFSF (Christova 2011: 52). The ESM was created by a separate treaty amending Article 136 of the TFEU (Treaty on the Functioning of the European Union). The ESM decision-making followed the model of the IMF and not of the EU in which every member has its governor on the board, but the number of votes reflects the amount of shares (Estonia has 0.186% of votes and shares, while Germany has 27.146% of votes and shares). The ESM, even having 17 member states, can in normal circumstances be controlled by the votes of three biggest shareholders – Germany, France, and Italy, having together over 65% of votes. The emergency voting procedure is based on a qualified majority requiring at least 80% of votes (The ESM Treaty, Chapter 2, Article 4).

The European Central Bank (ECB) used its additional tools (the SMP, the LTRO, and the OMT) to influence the crisis stabilization. The solution was seen in promoting the budget austerity and offering refinancing programs for the indebted governments and the commercial banks owning governmental debts. In this stage of the crisis management, the political and economic elites of member states and the supranational administrative elite were working in effective cooperation. The options taken by them were aimed at a fast stabilization in the fiscal aspect, pushing down the lending costs, and making more room for the future reforms by national governments. Supporting the bond market also worked in the interests of the business elite.

In 2010, the Security Markets Program (SMP) was started by the ECB to support Greek and Portuguese governments' bonds in the secondary market. Later, the program also supported the bonds of Spanish and Italian governments. In this period, the importance of the European Central Bank started growing, and the importance of national political elites in the policy-making process gradually started to decrease.

In December 2011, the additional Long-term Refinancing Operations (LTRO) were announced by the ECB, providing two rounds of cheap loans to the Eurozone commercial banks. They were intended to guarantee liquidity in the financial markets that were refusing to lend money. The main aim of the 2011 LTRO was to provide for the liquidity in the Eurozone banks. The 2011 LTRO was offering 489 billion Euros for up to three years, with 1% interests for the Eurozone commercial banks to buy the Eurozone governments' bonds. The LTRO programs were intended as a short-term solution to win time for the European political elite to carry out reforms and implement austerity measures while not suffering from even higher interest rates. As a result, 523 commercial banks participated, and the biggest amounts of loans were distributed to the banks of Greece, Italy, Portugal, and Spain. On 29 February, the additional LTRO2 was offered in the amount of 529 billion Euros.

The ECB was also ready to continue increasing its Monetary Transactions Program (OMT) to replace the previously accomplished bond buying program, but this time the bond purchases would be conditional and would only take place if the Eurozone member state would apply for the OMT assistance. The OMT was supported by Mario Draghi's speech on 26 July 2012: *"To the extent that the size of these sovereign premia hamper the functioning of the monetary policy transmission channel, they come within our mandate. Within our mandate, the ECB is ready to do whatever it takes to preserve the euro, believe me, it will be enough"* (Bloomberg 2012).

With the OMT, the ECB aimed to remove political risk from the financial markets. The ECB succeeded with the LTRO, the OMT, and President Mario Draghi's convincing speeches in restoring the confidence in financial markets, lowering significantly interest rates for highly indebted countries, and restoring the lending ability for all national governments in the Eurozone. Accordingly, the OMT effectively created a backstop, a firewall to the European debt market which was convinced that the ECB was buying the European debt in any necessary amount. In terms of lowering the interest rates and stabilizing the lending costs, the results were evident: The German interest rates thus dropped below 2%, and the Greece's rates, which in summer 2012 climbed to 16% (even reaching above 36%), on the ten-year debt have decreased to around 11% (Bloomberg 2013).

The ECB achieved the stabilization of governments' bond prices quite a moderate growth of money supply as compared, for example, with the Bank of England, the U.S. Federal Reserve, and the Swiss National Bank (Figure 4) (Merk 2012). In this case, the promise of Mario Draghi "to do whatever is needed" worked very well, even without an additional supply of Euros. Accordingly, there was no actual pressure on the growth of inflation in the Eurozone, and the option of an additional money supply is still available, if needed, in the next stage of the crisis (Merk 2012). Figure 4 also shows that the most active growth of the ECB balance sheet took place in the period of July 2011 – February 2012, and the situation for the ECB has stabilized since that.

This process indicates also that the markets and investors in the crisis situation were more concerned with the political decisiveness and consolidation than the actual interference measures. When the clear and confident message was given by Mario Draghi to the markets, the interest rates started dropping.

A special aspect in the transfer of initiative and power to the ECB competence was the aspect of the ECB not to apply power to the member states or other EU institutions' fiscal or budgetary privileges, but to use only the ability to create an additional supply of money and loans to reduce the level of interest rates of the governments' bonds.

From the perspective of the businesses elite and voters, the options offered by the ECB were more in their favour than the formerly proposed austerity measures or the redistribution of debt by Eurobonds, which both would have created uncertainty regarding the future. Likely, the higher taxation levels would negatively influence, hiring, investment and consumption. Together with spending cuts, which influences the public sector payrolls and employment level in addition to smaller social benefits, austerity measures would hurt the economic

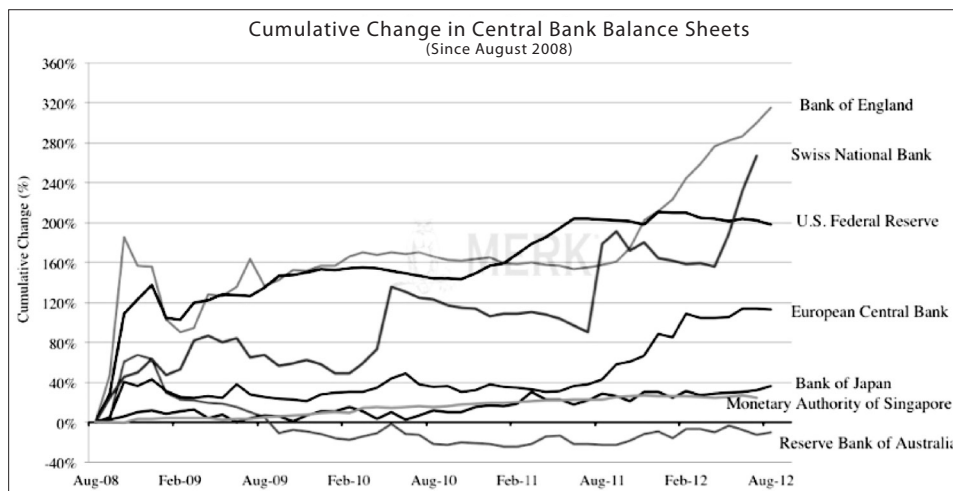


FIGURE 4. Balance sheets of selected central banks, 2008–2012 (Merk 2012)

fundamentals and outlook, creating the vicious cycle of a lower demand, a lower economic growth, and a higher unemployment. There were, of course, some exceptions; for example, the German public was critical about the monetary measures chosen by the ECB.

As is seen from the actual initiatives and actions taken during the financial crisis, the level of participation of different stakeholders changed significantly in 2008–2012. National political leaders (political elite) were the main group of stakeholders in 2008–2010 when the Eurozone rescue options were debated at numerous European Council and G7 meetings. National leaders had been also debating the financial stability topics in the G20 meetings since 2008 in order to involve China, Brazil, India and other growing economic powers into the regulation of the world finances. This was related with the expectation that the regional and international cooperation would build sufficient confidence in the markets. The dominance of the intergovernmental method was based also on the British and the Italian support of this method and a good personal cooperation between Angela Merkel and Nicolas Sarkozy.

However, the financial developments of the Eurozone also triggered social and political reactions and changes. In 2011, when it became more evident that the intergovernmental method cannot produce necessary confidence in the markets, political leaders began gradually losing the support of voters and the economic elite. The results differed: the German chancellor Angela Merkel saved her position but turned to a more passive approach in terms of the Eurozone decision making, whereas the French president Nicolas Sarkozy lost his popularity; he lost also the elections and was replaced by socialist Francois Hollande in May 2012. The Italian prime-minister Silvio Berlusconi was also forced to resign from office in November 2011 and was replaced by technocratic Mario Monti. The British prime-minister David Cameron kept his popularity among the voters by turning openly against The Eurozone stabilization program and the plans of a fiscal union (Daily Mail 2011).

This process, combined with quite a passive attitude from the European Commission and its president Manuel Barroso, led to the logical transition of additional power and initiative to the European Central Bank. When the national political elites were no more interested and able to make necessary political decisions and the European Commission was in many aspects restricted by the EU legal and budget limitations, the ECB was the main motivated, legally competent and capable actor for taking initiative to develop efficient counter-crisis measures. Of course, the national governments did not withdraw completely and continued to influence the stabilization process: the Stability Plus Pact, the second round of bail-outs and saving Cyprus are the main examples of their continuing efforts and participation in solving the Eurozone crises. In the longer run, also the importance and influence of the European Commission may grow again when the budgetary deficit control tools are agreed upon with the member states and implemented.

The attention of the public and the media was having a stronger impact on the Eurozone policy making when national political leaders were the dominant policy drivers and during the active rescue operations. When the situation in the bond markets cooled down and started to be initiated by supranational institutions, the attention to and the impact of the media reduced.

To conclude, despite the described efforts and optimism of the political elites of the Eurozone member states, there are actually no indicators of any improvement in the economic conditions in the Eurozone. On the contrary, according to the core economic indicators of the member states (unemployment, governments' debt, and industrial production), the situation in the beginning of 2013 is worse than it was in 2009 when the current crisis started and mainly a temporary stabilization has been achieved. Accordingly, additional efforts of stakeholders to create an effective stabilization and growth package for the Eurozone are needed.

CONCLUSIONS

The research issues of this study are focused on the current Eurozone financial crisis and discuss the choices that are available for decision makers, the stakeholder groups that have influenced the actual policy outcome, the ways the balance-of-power has been changing during the crisis management, and how the supranational institutions such as the European Central Bank have participated in the process.

The research has revealed that the main gainer in the process of power division among the stakeholders has been the supranational European Central Bank, whereas the main losers of power have been national political elites (national governments). The choice to become a passive actor for the national political elites was in some cases voluntary (the UK and Germany), and in some cases it was forced upon them by elections (Italy and France). The changes were initiated by the possibility to lose popularity among voters or the actual loss of elections because of the economic pressure. Accordingly, in this respect, the voters and the business elite as stakeholders controlled the choices of the political elite, but the final decision to delegate and transfer some executive power to non-electable institutions was made by the national political elites while creating the crisis management programs and institutions.

The decision-making space left from the national political elites was filled by the administrative supranational elite having no direct democratic mandate and therefore also no direct pressure from the voters and no need to concern about public popularity. As a result, the stakeholders having a democratic mandate decided to change for a more passive approach while the stakeholders having no democratic mandate were offered more room to act. If in the beginning of the Eurozone crisis national governments were the dominant group in strategy choosing and decision making, by the end of the year 2012 the influence of supranational institutions (the European Commission and the ECB) and national governments has equalized, as both groups are having their parallel initiatives. This change has been effective when looking at market reactions to bond prices and credit ratings, but it has also included some loss of democratic control and weakened the inclusion of smaller member states.

Accordingly, in terms of the future institutional reform, the question how to build a democratic but economically sustainable Eurozone has become even more complicated than before the crisis. As a result of the developments in 2012, active changes will have to come from a balanced cooperation of the national political elite, the ECB, and the European Commission.

During the last four years, reactions to the financial crisis have been cyclically repeating, and each new bond market disturbance has been met by a growing action of the EU institutions. As the Cyprus banking crisis in March 2013 has started, financial complications are not yet over, and the stabilization mechanism needs an additional development in terms of legal bases and institutions.

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